

Message Text

PAGE 01 STATE 113546

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TO AMEMBASSY BRUSSELS PRIORITY

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FOR JOHN BUSHNELL ATTENDING ECG PREPCOM

FOLLOWING REPEAT ROME 7352 ACTION STATE 29 MAY 1974. QUOTE:

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DEPT PLEASE PASS FEA

E.O. 11652: N/A

TAGS: ENGR

SUBJECT: MEETING OF ECG AD HOC WORKIG GROUP

ON ROLE OF INTERNATIONAL OIL COMPANIES

1. BEGIN SUMMARY. SUBJECT MEETING ENDED MAY 24 HAVING PRODUCED
AD REFERENDUM SATISFACTORY TO USDEL HAVING DELETED OR SOFTENED MOST
OBJECTIONABLE PORTIONS OF DRAFT. END SUMMARY.

2. MAY 23-24 MEETING OF SUBJECT WORKING GROUP WAS ATTENDED BY
REPRESENTATIVES OF ALL ECG COUNTRIES.

3. MEETING ENDED WITH AGREED AD REFERENDUM PAPER AS FOLLOWS:

BEGIN QUOTE: CHAPTER 1 - THE CHANGING ROLE OF THE INTERNATIONAL
OIL COMPANIES. 1. SINCE 1970, OIL MARKET CONDITIONS HAVE
GREATLY ENHANCED THE PRODUCER GOVERNMENTS' BARGAINING POSITION

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PAGE 02 STATE 113546

VIS-A-VIS THE INTERNATIONAL OIL COMPANIES. (THOS COMPANIES WHICH
ARE INTEGRATED IN THE SENSE OF OWNING OR CONTROLLING SIGNFICANT
PRODUCING, TRANSPORTATION, PROCESSING AND MARKETING FACILITIES
AND WHICH OPERATE ON AN INTERNATIONAL SCALE.) AGREEMENTS GIVING

PRODUCER GOVERNMENTS SUBSTANTIAL OWNERSHIP OF AND CONTROL OVER CRUDE PRODUCTION HAVE BEEN IMPLEMENTED AND ARRANGEMENTS FOR FURTHER TRANSFERS OF EQUITY SEEM LIKELY TO CONTINUE.

AS A RESULT, KEY DECISIONS ON CRUDE OIL PRICE AND PRODUCTION LEVELS ARE AT THE PRESENT TIME BEING MADE UNILATERALLY BY PRODUCER GOVERNMENTS AND NOT BY THE COMPANIES.

2. CRUDE OIL PRICE LEVELS, ONCE SET EXCLUSIVELY BY THE COMPANIES, AND THEN UNTIL VERY RECENTLY BY COMPANY-PRODUCER STATE NEGOTIATIONS, ARE, AT LEAST FOR THE PRESENT, BEING MAINLY IMPOSED BY THE PRODUCER STATES. THE RECENT SHARP OIL PRICE RISES ACCENTUATE THE WORLD'S FINANCIAL INSTABILITY. THE IMPOSITION OF THESE VERY STEEP INCREASES DRAMATIZES THE EROSION OF PRICE BARGAINING POWER THAT ALL OIL COMPANIES - MAJORS, INDEPENDENTS AND NATIONALS - HAVE EXPERIENCED IN RECENT MONTHS.

3. THE INTERNATIONAL COMPANIES HAVE ALSO LOST THEIR FORMER EXCLUSIVE CONTROL OVER CRUDE OIL OWNERSHIP AND, AT LEAST FOR THE MOMENT, OVER PRODUCTION LEVELS. PARTICIPATION ARRANGEMENTS WITH PRODUCERS, VARIOUS FORMS OF PRODUCTION SHARING, AND OUTRIGHT NATIONALIZATION HAVE PLACED LARGE AMOUNTS OF CRUDE IN THE HANDS OF PRODUCER GOVERNMENTS. THE METHODS BY WHICH THEY WILL DISPOSE OF THIS OIL IN THE FUTURE ARE UNCERTAIN; AT THE MOMENT HOWEVER IT DECREASES THE POWER OF THE INTERNATIONAL COMPANIES AND RAISES QUESTIONS OF SUPPLY SECURITY FOR CONSUMER COUNTRIES.

ALSO, THE ULTIMATE SIZE OF THE PRODUCER GOVERNMENT SHARE IN MANY KEY REGIONS IS STILL UNCERTAIN AS IS WHETHER THE CURRENT DIFFERENTIAL BETWEEN THE COST OF EQUITY AND PARTICIPATION OIL WILL BE RETAINED IN FUTURE ARRANGEMENTS. THE AMOUNTS OF OIL AVAILABLE TO CONSUMERS IS ALSO IN LARGE PART BEING DETERMINED BY PRODUCER "FIAT," AND THERE ARE TENDENCIES TO MAINTAIN CONSERVATION LEVELS. IT IS UNCLEAR WHETHER THERE WILL BE A RETURN TO A MORE COMPETITIVE OIL MARKET, AND A RESTORATION OF PRODUCER-COMPANY NEGOTIATIONS AND BARGAINING ON PRICE AND PRODUCTION LEVELS.

4. AT THE SAME TIME THAT THE INTERNATIONAL COMPANIES ARE EXPERIENCING EXTENSIVE CHANGES IN THEIR TRADITIONAL RELATIONSHIP LIMITED OFFICIAL USE
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PAGE 03 STATE 113546

WITH PRODUCERS, THEIR ROLE, CONDUCT, AND POLICIES IN MANY CONSUMER STATES ARE UNDERGOING CLOSE SCRUTINY AND CRITICISM. THERE ARE APPREHENSIONS ABOUT POSSIBLE OVER-RELIANCE ON EXTERNALLY CONTROLLED CORPORATIONS FOR OIL SUPPLY. IN THIS SITUATION CERTAIN CONSUMER GOVERNMENTS HAVE TAKEN VARIOUS ACTIONS, BY LEGISLATION OR OTHERWISE, TO LIMIT PRICE INCREASES, TO SECURE ALTERNATIVE SUPPLY VIT BILATERAL DEALS, STRONGER BACKING OF NATIONAL COMPANIES AND TO OBTAIN GREAT INFORMATION.

5. INTERNATIONAL OIL COMPANIES ARE CLEARLY PASSING THROUGH A PERIOD OF READJUSTMENT TO NEW CONDITIONS, THE END OF WHICH IS STILL NOT IN SIGHT. DESPITE THE CURRENT EROSION OF THEIR POWERS,

THEY HAVE AT THEIR DISPOSAL TECHNOLOGICAL AND MANAGERIAL EXPERTISE AND REMAIN EFFICIENT VEHICLES FOR FINDING, PRODUCING, REFINING, AND MARKETING OIL. THEY HAVE TRADITIONALLY UNDERTAKEN LARGE INVESTMENTS OF RISK CAPITAL NEEDED TO FIND AND PRODUCE OIL. THEIR MULTINATIONAL STRUCTURE IS A DIRECT REFLECTION OF THE ESSENTIAL MULTINATIONAL NATURE OF THE OIL INDUSTRY ITSELF. IT IS THEREFORE LIKELY THAT THEY WILL AND SHOULD CONTINUE TO PLAY AN ESSENTIAL ROLE IN THE FUTURE. BUT WITHIN AN ENLARGED FRAMEWORK OF THE OIL INDUSTRY IN WHICH OTHER COMPANIES WILL AND SHOULD ALSO PLAY THEIR PART.

CHAPTER II - EFFECTS OF THE PRESENT SITUATION ON SUPPLY AND COSTS FOR THE VARIOUS COUNTRIES AND OIL COMPANIES. 1. THE SITUATION DESCRIBED IN CHAPTER I HAS CREATED PUBLIC AND OFFICIAL CONCERN ESPECIALLY AS REGARDS THE FOLLOWING MAIN AREAS:

- A. THE ABILITY OF CONSUMERS TO OBTAIN ADEQUATE AND REASONABLY PRICE SUPPLIES, ESPECIALLY IN TIME OF EMERGENCY;
- B. THE LEVEL AND STRUCTURE OF PRICES CHARGED BY THE INTERNATIONAL COMPANIES TO CONSUMERS, PARTICULARLY IN VIEW OF THE LEVEL OF PROFITS RECENTLY RECORDED BY THE INTERNATIONAL COMPANIES;
- C. THE ACCESS OF NON-INTEGRATED COMPANIES TO CRUDE OIL SUPPLIES, INCLUDING THE PRICES CHARGED TO THEM BY THE INTERNATIONAL COMPANIES OR BY PRODUCING COUNTRIES AND ANY DIFFERENCES BETWEEN SUCH PRICES;
- D. THE EFFECTS TO BE EXPECTED FROM BILATERAL DEALS BETWEEN CONSUMER COUNTRIES OR THEIR NATIONAL OIL COMPANIES AND PRODUCER COUNTRIES, AND FROM ARRANGEMENTS BETWEEN INTERNATIONAL COMPANIES AND PRODUCER COUNTRIES.

2. EXISTING CONDITIONS IN THE INTERNATIONAL OIL INDUSTRY AND LIMITED OFFICIAL USE
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PAGE 04 STATE 113546

THE GROWING CONCERN ABOUT PRICING AND ALLOCATION OF SUPPLIES ENCOURAGE CONSUMER GOVERNMENTS TO TAKE MEASURES TO PREVENT THEIR ECONOMIES AND NATIONAL LIFE FROM BEING ADVERSELY AFFECTED. IT SEEMS INDISPENSABLE THAT ANY SUCH MEASURES REFLECT COORDINATED ACTION.

3. IT IS CLEAR THAT GOVERNMENTS HAVE BOTH A RIGHT AND AN OBLIGATION TO THEIR CITIZENS TO STRIVE TO ENSURE TO THE GREATEST POSSIBLE EXTENT THAT THEIR COUNTRIES RECEIVE EQUITABLE TREATMENT, IN TERMS OF THE ALLOCATION AND PRICING OF CRUDE AND PETROLEUM PRODUCTS, BOTH FROM THE INTERNATIONAL COMPANIES AND FROM THE PRODUCER GOVERNMENTS.

4. THE WORKING GROUP BELIEVES THAT COMPETITION AMONG ALL OIL COMPANIES IS IN THE GENERAL INTERESTS OF CONSUMERS AND SHOULD BE FOSTERED.

5. THE NON-INTEGRATED OIL COMPANIES HAVE TRADITIONALLY OBTAINED MOST OF THEIR CRUDE OIL FROM THE INTERNATIONAL COMPANIES. UNDER NEW PARTICIPATION AGREEMENTS, HOWEVER, THE INTERNATIONAL COMPANIES

ARE RETAINING LESS OF THEIR TOTAL PRODUCTION, AND THEREFORE HAVE LESS CRUDE AVAILABLE FOR SALE TO OTHERS AFTER SUPPLYING THEIR OWN PROCESSING FACILITIES. CONSEQUENTLY, NON-INTEGRATED COMPANIES ARE HAVING TO DRAW THEIR SUPPLIES OF CRUDE FROM THE STATE-OWNED COMPANIES IN THE PRODUCING COUNTRIES. CERTAIN INTERNATIONAL COMPANIES HAVE PROBABLY EXPERIENCED SIMILAR PROBLEMS.

6. SINCE THE BEGINNING OF THE RECENT CRISIS, MANY NON-INTEGRATED COMPANIES HAVE BEEN FACED WITH THE CHOICE OF LEAVING THE MARKET OR BUYING CRUDE OIL AT PRICES WHICH ARE GENERALLY HIGHER THAN THOSE AT WHICH SOME CRUDE IS AVAILABLE TO THE INTERNATIONAL COMPANIES. THE COST OF CRUDE OIL TO THE INTERNATIONAL COMPANIES IS AN "AVERAGE COST" COMPOSED OF (I) "EQUITY" COSTS FOR OIL PRODUCED BY THEM WHICH THEY RETAIN AND (II) "BUY-BACK" COST FOR OIL WHICH IS TAKEN BY THE PRODUCER GOVERNMENTS UNDER PARTICIPATION AGREEMENTS AND SOLD BACK TO THE COMPANIES.

THE INTERNATIONAL COMPANIES GENERALLY SELL CRUDE OIL (I) TO NON-INTEGRATED COMPANIES AT A "MARKET" PRICE WHICH APPROXIMATES THE PRICE AT WHICH THE PRODUCER GOVERNMENTS ARE ABLE TO SELL THE PARTICIPATION OIL RETAINED BY THEM FOR SALE TO OTHERS, AND (II) TO THEIR AFFILIATES AT A "TRANSFER" PRICE WHICH VARIES

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PAGE 05 STATE 113546

FROM COMPANY TO COMPANY BUT WHICH IN MOST CASES IS LESS THAN THE "MARKET" PRICE AND MORE THAN THE "AVERAGE" COST. THE DIFFERENCE BETWEEN "AVERAGE" COST AND EITHER "MARKET" OR "TRANSFER" PRICE REPRESENTS PROFIT TO THE COMPANIES ON THE SALE OF CRUDE OIL, WHICH VARIES ACCORDING TO THE "MIX" OF EQUITY AND PARTICIPATION OIL AVAILABLE TO THEM, AND ACCORDING TO THE "MIX" OF THEIR THIRD PARTY AND AFFILIATE SALES.

7. THIS DIFFERENCE IN COST ENABLES THE INTERNATIONAL OIL COMPANIES TO EITHER (I) SET THEIR TRANSFER PRICES TO THEIR AFFILIATES LOWER THAN THE PRICE AT WHICH NATIONAL COMPANIES PURCHASE DIRECTLY FROM PRODUCERS, THUS PERMITTING SUCH AFFILIATES TO MAKE GREATER PROFITS THAN SUCH NATIONAL COMPANIES AND TO SET HIGHLY COMPETITIVE PRICES IN THE MARKET, OF (II) TO SET THEIR TRANSFER PRICES AT OR NEAR THE PRICES PAID BY NATIONAL COMPANIES THUS PERMITTING THE INTERNATIONAL COMPANIES TO MAKE GREATER PROFITS IN THE SALE OF CRUDE OIL.

8. TO SOME EXTENT, THE LOWER COST AT WHICH SOME CRUDE, IS AVAILABLE TO THE INTERNATIONAL COMPANIES IS ATTRIBUTABLE TO THEIR SUBSTANTIAL CAPITAL INVESTMENTS IN EXPLORATION AND PRODUCTION FACILITIES, AND ALSO TO THEIR LONG TERM LARGE VOLUME CONTRACTS AND OTHER FACTOS.

9. THERE IS, HOWEVER, WIDE-SPREAD CONCERN IN CONSUMING COUNTRIES ABOUT THE CURRENT LEVEL OF THE INTERNATIONAL COMPANIES' PROFIT. THE WORKING GROUP RECOGNIZES THAT IN ORDER FOR THE INTERNATIONAL

COMPANIES TO CONTINUE TO PLAY A SIGNIFICANT ROLE IN THE OIL INDUSTRY THEY MUST MAKE REASONABLE PROFITS. NEVERTHELESS, SENSITIVITY ABOUT OIL COMPANIES' RECENT PROFITS NEEDS TO BE MET, WHICH COULD BE DONE THROUGH THE MEASURES PROPOSED IN CHAPTER III BELOW.

10. THE LESS FAVORABLE STATUS OF SOME NATIONAL COMPANIES VIS-A-VIS SOME PRODUCING COUNTRIES IS A SOURCE OF CONCERN TO THE NATIONAL GOVERNMENTS INVOLVED. METHODS SHOULD BE EXAMINED THAT ENSURE EQUITABLE EVEN-HANDED TREATMENT FOR THESE AND OTHER COMPANIES, WHILE NOT IMPAIRING THE ABILITY OF THE INTERNATIONAL COMPANIES TO PROVIDE THOSE SERVICES FOR WHICH THEY ARE WELL SUITED, AND WHILE NOT DEPRIVING THEM OF THE LEGIMATE BENEFITS OF THEIR LIMITED OFFICIAL USE
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PAGE 06 STATE 113546

INVESTMENTS.

11. SHOULD A MUTUAL UNDERSTANDING ON SUCH METHODS NOT BE ACHIEVED, CONSUMING COUNTRIES OR NON-INTEGRATED COMPANIES MAY BE EXPECTED TO TRY TO MAKE BILATERAL DEALS ON THEIR OWN, WHICH MIGHT UNDERMINE AND FURTHER DIMINISH THE POSITION OF THE INTERNATIONAL COMPANIES. THEREFORE, IN ORDER TO GIVE TO CONSUMER COUNTRIES AND NON-INTEGRATED COMPANIES REASONABLE ASSURANCE THAT THEY WILL HAVE ADEQUATE SUPPLIES AT PRICES WHICH DO NOT DIFFER UNDULY FROM THOSE OF THE INTERNATIONAL COMPANIES, IT WOULD BE IN THE INTEREST OF ALL CONSUMER GOVERNMENTS TO PROMOTE THE MUTUAL UNDERSTANDING MENTIONED AND TO ENSURE ITS IMPLEMENTATION.

12. PRICING AND OTHER ARRANGEMENTS BETWEEN THE PRODUCING COUNTRIES AND THE INTERNATIONAL COMPANIES ARE CURRENTLY UNDERGOING VERY SUBSTANTIAL CHANGE, AND IT IS IMPOSSIBLE TO FORESEE WITH ANY DEGREE OF CERTAINTY WHAT THE PATTERN OF THESE ARRANGEMENTS WILL BE IN THE FUTURE. IT MAY WELL BE THAT UNDER NEW ARRANGEMENTS, THE INTERNATIONAL COMPANIES WILL NO LONGER HAVE SPECIAL ACCESS TO RELATIVELY LOW PRICED CRUDE. NEW ARRANGEMENTS MAY ALSO MODIFY CURRENT PRACTICES OF PRODUCER GOVERNMENTS WHICH AFFECT THE AVAILABILITY OF CRUDE TO NATIONAL COMPANIES. IF THERE ARE SUCH NEW ARRANGEMENTS, SOME OF THE PROBLEMS CURRENTLY FACING NATIONAL COMPANIES ON SUPPLIES AND PRICES COULD BE LARGELY RESOLVED.

CHAPTER III. PROPOSED ACTION BY CONSUMER GOVERNMENTS.

FACED WITH THE PROBLEMS OUTLINED IN CHAPTER II, CONSUMER GOVERNMENTS WILL WANT TO CONSIDER AND REACH AGREEMENT ON WHAT ACTION IS TO BE TAKEN IN ORDER TO SAFEGUARD EQUITABLE SUPPLIES AGAINST REASONABLE PRICES. A MAJOR DIFFICULTY IN MAKING SUCH DECISIONS STEMS FROM THE FACT THAT DECISIONS HAVE TO BE MADE IN A SITUATION WHERE EXISTING ARRANGEMENTS AND PRACTICES ARE UNDERGOING VERY SUBSTANTIAL CHANGES AND WHERE IT IS DIFFICULT TO FORESEE WHAT THE FUTURE PATTERN WILL BE.

THE UNCERTAINTY OF THE SITUATION SHOULD NOT LEAD CONSUMER
GOVERNMENTS TO THE CONCLUSION THAT NO ACTION CAN BE TAKEN. ON THE
CONTRARY - WHILE PROVIDING FOR FLEXIBILITY - CONSUMER GOVERNMENTS
SHOULD TAKE ACTION AIMING AT IMPROVING THE OIL INDUSTRY SITUATION
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PAGE 07 STATE 113546

EXPECIALLY WITH REGARD TO THE PROBLEMS IDENTIFIED IN CHAPTER II.

A. PROPOSED ACTION WITH RESPECT TO THE OIL INDUSTRY.

IT IS GENERALLY AGREED THAT CONSUMER GOVERNMENT WILL NEED TO
PLAY A RATHER MORE ACTIVE ROLE IN RELATION TO THE OIL INDUSTRY THAN
IN THE PAST IF THE DIFFICULTIES MENTIONED IN CHAPTER II ARE TO BE
OVERCOME.

AS INDICATED EARLIER, WE BELIEVE THAT THE INTERNATIONAL
OIL COMPANIES WILL CONTINUE TO PLAY AN IMPORTANT ROLE IN
THE OIL INDUSTRY IN THE FUTURE WITHIN AN ENLARGED FRAMEWORK OF THE
OIL INDUSTRY, IN WHICH OTHER COMPANIES WILL ALSO PLAY THEIR PART.
MOREOVER IT WILL REMAIN IMPORTANT FOR THEM - LIKE OTHER COMPANIES -
TO ENSURE PROFITABILITY AND FINANCIAL VIABILITY, ESPECIALLY ON AC-
COUNT OF THE CAPITAL DEMANDS EXPECTED. ALL THE PROPOSALS NOW SUB-
MITTED ARE INTENDED TO BE COMPATIBLE WITH THIS, AND ARE PUT FORWARD
IN A CONSTRUCTIVE WAY, CONDUCIVE TO COOPERATION.

IN PARTICULAR, ACTION RELATING TO OIL COMPANIES WHOULD BE TAKEN
IN THE FOLLOWING FIELDS:

- THE ESTABLISHMENT OF A FRAME WORK FOR CONSULTATION AND
COOPERATION BETWEEN CONSUMER GOVERNMENTS AND OIL COMPANIES;

- THE ESTABLISHMENT OF AN EFFECTIVE INTERNATIONAL INFORMATION
SYSTEM;

- THE ADOPTION OF A SET OF PRECISE MEASURES TO BE SET IN FORCE
AUTOMATICALLY IN EMERGENCY SITUATIONS.

1. COOPERATIVE FRAMEWORK BETWEEN CONSUMER GOVERNMENTS AND OIL
COMPANIES.

AN INTERNATIONAL FRAMEWORK FOR CONSULTATIONS AND COOPERATION
BETWEEN CONSUMER GOVERNMENTS AND OIL COMPANIES WOULD PROVIDE A
PERMANENT FORUM FOR A DIALOGUE ON ALL IMPORTANT ASPECTS OF THE
INTERNATIONAL OIPSINDUSTRY. IT WOULD MAKE IT POSSIBLE FOR BOTH
CONSUMER GOVERNMENTS AND COMPANIES TO CONSIDER CURRENT DEVELOPMENTS
AND TO FORMULATE APPROPRIATE COOPERATION. IT WOULD ALSO PROVIDE
A FLEXIBILITY WHICH COULD PROMOTE SOULD COMPETITIVE CONDITIONS
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PAGE 08 STATE 113546

IN THE OIL SECTOR IN THE INTEREST OF CONSUMERS.

2. AN INTERNATIONAL INFORMATION SYSTEM.

IT IS GENERALLY AGREED THAT GREATER TRANSPARENCY OF THE OIL MARKET AND OF THE ACTIVITIES OF THE OIL COMPANIES IS NEEDED IN ORDER TO ENABLE CONSUMER GOVERNMENTS TO SATISFY THEMSELVES TO THE GREATEST EXTENT POSSIBLE WHETHER THEIR COUNTRIES AND COMPANIES RECEIVE EQUITABLE TREATMENT IN TERM OF SUPPLY AND PRICING OF CRUDE AND PRODUCTS.

AT THE SAME TIME AN INTERNATIONAL SYSTEM OF INFORMATION CAN PROVIDE DETAILED INFORMATION ON THE STATE OF THE INTERNATIONAL OIL MARKET, WHICH MAY BE USEFUL AND HELPFUL TO GOVERNMENTS WITH RESPECT TO THEIR NATIONAL ENERGY POLICY. LASTLY A WELL DEVELOPED INFORMATION SYSTEM IS IMPERATIVE IN TIMES OF EMERGENCY WHEN SHORTAGES IN THE OIL-FLOW OCCUR. THESE OBJECTIVES COULD BE FURTHERED BY AN INFORMATION SYSTEM WHEREBY

(A) OIL COMPANIES SUPPLY THE GOVERNMENTS IN COUNTRIES WHERE THEY OPERATE WITH RELEVANT INFORMATION CONCERNING THE FOLLOWING:

1. CORPORATE STRUCTURE;
 2. FINANCIAL STRUCTURE, INCLUDING BALANCE SHEETS, PROFIT AND LOSS ACCOUNTS, AND TAXES APID;
 3. CAPITAL INVESTMENTS REALIZED;
 4. TERMS OF ARRANGEMENTS FOR ACCESS TO MAJOR SOURCES (OF CRUDE OIL);
 5. CURRENT RATES OF PRODUCTION AND ANTICIPATED CHANGES THEREIN;
 6. ALLOCATIONS OF AVAILABLE CRUDE SUPPLIES TO AFFILIATES AND OTHER CONSUMERS (CRITERIA AND REALIZATIONS);
 7. STOCKS;
 8. COST OF CRUDE OIL AND OIL PRODUCTS;
 9. PRICE INFORMATION, INCLUDING TRANSFER PRICES TO AFFILIATES.
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PAGE 09 STATE 113546

(B) GOVERNMENTS MAKE THIS INFORMATION AVAILABLE ON A NON PROPRIATORY AND NON DISCRIMINATORY (#) BASIS TO A COMMON INTERNATIONAL CENTER ON A COUNTRY AND/OR COMPANY BASIS AS APPROPRIATE.

(C) PRECISE STANDARDS ARE DEVELOPED FOR THE HARMONIZATION OF THE INFORMATION GATHERED IN ORDER TO ENSURE COMPARABILITY OF THE DATA.

(#) THE TERM NON DISCRIMINATORY IS UNDERSTOOD TO MEAN THAT NO GOVERNMENT WILL BE OBLIGED TO SUBMIT ANY DATA PERTINENT TO ACTIVITIES IN ANOTHER COUNTRY WHICH COULD NOT BE MADE AVAILABLE BY AN EQUAL APPLICATION OF THAT COUNTRY'S LAWS OR IMPLIMENTATION OF ITS INSTITUTIONS AND CUSTOMS.

THE SYSTEM WILL BE INITIATED, ITS BASIC DESIGN COMPLETED, AND DATA GATHERING COMMENCED WITHIN 90 DAYS OF ITS APPROVAL, AS FOLLOWS:

A - AN EXAMINATION WILL BE MADE OF SPECIFIC REAL PROBLEMS EXPERIENCED BY COUNTRIES.

B - SPECIFIC ISSUES OF CONCERN AS SUBMITTED BY MEMBER COUNTRIES WILL BE CAREFULLY DEFINED.

C - WHAT DATA RELAVENT TO EACH ISSUE ARE PRESENTLY AVAILABLE FROM PUBLIC SOURCES WILL BE DETERMINED, AND SUCH DATA WILL BE ASSEMBLED AND EVALUATED.

D - ALL SUCH ADDITIONAL DATA AS ARE PRESENTLY AVAILABLE ON A NON-DISCRIMINATORY BASIS UNDER THE LAWS, CUSTOMS AND INSTITUTIONS OF THE REQUESTING COUNTRY WILL BE ASSEMBLED AND EVALUATED.

E - THE INTERNATIONAL COMPANIES IN QUESTION WILL BE REQUESTED TO FURNISH SUCH ADDITIONAL SPECIFIC DATA AS ARE CONSIDERED NECESSARY TO THE COMPLETION OF THE ENQUIRY.

THE SYSTEM SHOULD BE PREPARED AND IMPLEMENTED BY A SPECIAL WORKING GROUP WITHIN THE OICD OIL COMMITTEE OR ELSEWHERE, WHICH WILL DEFINE THE DETAILS AND MECHANISMS OF THE SYTEM.

CARE WILL BE TAKEN IN ESTABLISHING PROCEDURES FOR THE EX-LIMITED OFFICIAL USE
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PAGE 10 STATE 113546

CHANGE OF INFORMATION AMONG GOVERNMENTS TO ENSURE THAT COMPLETION IS NOT PREJUDICED, AND THAT THE LEGAL REQUIREMENTS OF ALL COUNTIRES ARE OBSERVED.

3. EMERGENCY MEASURES.

GOVERNMENTS SHOULD ADOPT A SET OF PRECISE MEASURES, INCLUDING PRECISE INDICATIONS CONCERNING THE ROLE OF OIL COMPANIES, TO BE SET IN FORCE IN EMERGENCY SITUATIONS.

THIS QUESTION IS BEING DEALT WITH ELESEWHERE IN THE WORK OF THE ECG.

B. RELATIONS WITH PRODUCER GOVERNMENTS.

THE ESTABLISHMENT OF A FRAMEWORK FOR CONSULTATION AND COOPERA-

TION BETWEEN CONSUMER GOVERNMENTS AND OIL COMPANIES WOULD PROVIDE A BASIS FOR ENSURING MORE STABLE SUPPLIES AND QUITABLE PRICES TO CONSUMERS. IT IS, HOWEVER, CLEAR FROM WHAT IS AID IN CHAPTER I THAT CONSUMER GOVERNMENTS MAY WISH TO CONSIDER THE ESTABLISHMENT OF A FRAMEWORK FOR COOPERATION AND CONSULTATION BETWEEN CONSUMER AND PRODUCER GOVERNMENTS AS EVISAGED BY THE WASHINGTON ENERGY CONFERENCE.

WORK CONDUCTED ELSEWHERE UNDER THE ECG WILL BRING OUT A NUMBER OF TOPICS WHICH COULD USEFULLY BE APPROACHED IN SUCH A CONFERENCE. SUCH TOPICS SHOULD INCLUDE MEASURES FOR ENSURING CONSUMING COUNTRIES AND NON INTERGRATED COMPANIES REASONABLE CERTAINTY TO SECURE OIL AT PRICE CONDITIONS NOT UNDULY DISSIMILAR FROM THOSE OF THE INTERNATIONAL OIL COMPANIES.

HOW THIS OBJECTIVE CAN BE REACHED (LONG-TERM SUPPLY CONTRACTS, ESTABLISHMENT OF CONSORTIA AMONG OIL COMPANIES IN OLD AND NEW OIL AREAS, ETC.) WOULD DEPEND UPON THE KIND OF RELATIONS ESTABLISHED BETWEEN THE CONSUMING COUNTRIES AND THE PRODUCING COUNTRIES.

SUCH A WIDENING OF THE INDUSTRY BASIS, ALLOWING A REGULAR CARRYING ON AND DEVELOPMENT OF THE OIL ACTIVITIES, WOULD BE IN THE INTEREST OF THE CONSUMING COUNTRIES AND THE OIL COMPANIES, BOTH MAJORS AND OTHERS, AND IT WOULD ALSO SERVE THE LONG-TERM INTERESTS OF THE PRODUCING COUNTRIES.

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PAGE 11 STATE 113546

C. PROBLEMS WHICH SHOULD BE EXAMINED IN FOLLOW UP MECHANISM.

1. RELATION BETWEEN BILATERAL DEALS AND ARRANGEMENTS BETWEEN INTERNATIONAL COMPANIES WITH PRODUCER COUNTRIES.

THE SIZE AND NUMBER OF BILATERAL DEALS IS INCREASING BUT IT IS STILL MARGINAL COMPARED WITH THE SIZE OF EXISTING ARRANGEMENTS BETWEEN PRODUCER COUNTRIES AND INTERNATIONAL COMPANIES. A CONCERN HAS BEEN EXPRESSED THA BILATERAL DEALS, IN SOME CASES, MIGHT HAVE AN ADVERSE EFFECT ON THE GENERAL INTEREST OF THE CONSUMER COUNTRIES.

THERE IS, HOWEVER, ALSO A CONCERN IN SOME CONSUMER COUNTRIES ABOUT THE DEALS OF INTERNATIONAL COMPANIES WITH THE PRODUCER COUNTRIES IN THE LIGHT OF THEIR VERY LARGE SHARE IN THE WORLD OIL FLOW AS WELL AS THE RECENT OIL PRICES WHICH WERE NOT EXPLAINED TO THE FULL SATISFACTION OF SOME CONSUMER COUNTRIES. THEREFORE THE POSSIBLLITY OF SETTING GUIDELINES BOTH FOR BILATERAL DEALS AND FOR ARRANGEMENTS BETWEEN INTERNATIONAL COMPANIES AND PRODUCER COUNTRIES SHOULD BE STUDIED.

2. TWO-TIER PRICE STRUCTIRE.

THE TWO-TIER PRICE STRUCTURE PRESENTS SERIOUS PROBLEMS WHICH

SHOULD BE DISCUSSED THORORUGHL Y IN THE DIALOGUE BETWEEN CONSUMER COUNTRIES AND THE INTERNATIONAL COMPANIES REFERRED TO ABOVE AND EVENTUALLY BETWEEN PRODUCER AND CONSUMER COUNTRIES. CONSUMER COUNTRIES MIGHT ALSO CONSULT WITH INTERNATIONAL COMPANIES ON BUY-BACK ARRANGEMENTS. END QUOTE.

4. IN CONNECTION WITH DELETION OF PROPOSALS FOR GOVERNMENT REGULATIONS DURING PERIODS OF "MARKET TENSION", USDEL UNDERTOOK TO RAISE IN IERG POSSIBILITY OF INCLUDING MARKET DISTORTIONS AMONG EMERGENCIES TO BE DEFINED IN IEP AS REQUIRING INTENSIFIED INFORMATION AND CONSULTATION MEASURES.

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PAGE 12 STATE 113546

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From: STATE
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